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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 001567

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SENSITIVE

STATE FOR NEA/ELA, EEB
COMMERCE FOR MAC (T. SAMS, N. WIEGLER)

E.O. 12958: DECL: 05/22/2023
TAGS: EPET ENRG EFIN JO
SUBJECT: JORDAN TO GET MORE EGYPTIAN GAS

REF: A. USEU BRUSSELS 590 B. AMMAN 884 C. 04 AMMAN 830

Classified By: Ambassador David Hale For Reasons 1.5 b and d

¶1. (SBU) SUMMARY: The Government of Jordan (GOJ) announced a new agreement with Egypt in April 2008 on the supply of Egyptian natural gas to Jordan through the Arab Gas Pipeline. The new deal will allow Jordan to purchase up to 2.7 billion cubic meters (BCM) at a preferential rate through 2012, enabling natural gas to continue fueling about 84% of Jordan's electricity generation. Given Jordan's increasing electricity demands, there are concerns that Jordan will face a shortage of natural gas as of 2012, requiring it to burn expensive heavy fuel oil or diesel until other energy sources such as oil shale begin generating electricity. The Arab Gas Pipeline is ready to supply Syria with natural gas, with Lebanon close behind. Plans to link Turkey and potentially Iraq may need to overcome some obstacles before becoming a reality. END SUMMARY.

More Egyptian Gas for Jordan

¶2. (SBU) In 2004, Egypt agreed to supply Jordan with up to 2.3 BCM of gas per year at a preferential price until 2018. Natural gas, primarily from Egypt, has been fueling over 84% of Jordan's installed capacity for generating electricity. Less than four percent is generated from Jordan's al-Risha gas field, which the Government of Jordan (GOJ) has expressed interest in developing further. Note: The U.S. company Anadarko has been in protracted negotiations with the GOJ on a proposal to develop the Risha gas field, but no deal has come to fruition to date. Post has also heard rumors about BP interest in the project. End Note. About 15% of electricity is generated by heavy fuel oil (HFO), and a minimal amount is generated from alternative sources, such as wind. The GOJ estimates that Jordan's electricity needs will reach 5770 MW by 2020, compared to 2100 MW in 2007, requiring an average of 300 MW of additional generated capacity per year.

¶3. (C) To meet this growing demand, Jordanian Energy Minister Khaldoun Qutishat reported to local press in April 2008 that Jordan had concluded negotiations with Egypt on a new deal to supply Jordan with additional quantities of natural gas. Although the Ministry of Energy and Mineral Resources (MEMR) declined to comment on the specifics of the agreement, the Managing Director of the National Energy Power Company, Ahmed Hiyasat, recently told Emboffs that the new agreement is for an additional 1 BCM per year until 2012, with the option to purchase an additional 0.5 BCM as of 2012. He indicated that the cost of the Egyptian natural gas to Jordan will continue to be $2 per British Thermal Unit (BTU) for the first 1.7 BCM until 2012, and the cost of the additional 1 BCM will be $5/BTU.

¶4. (C) Hiyasat commented that as a result of this new arrangement, Jordan would purchase approximately 2.7 BCM of natural gas per year, which would allow it to maintain current electricity production levels from natural gas through 2012. He believed, however, that Jordan would face a shortage of gas as of 2012 until 2015, when the GOJ hopes to begin generating electricity from oil shale. Hiyasat projected that Jordan would need to burn HFO and diesel at high cost during that three-year period. The GOJ is also banking on nuclear energy for electricity generation in the long-term, with the French company Areva promising a nuclear reactor by 2016 (ref B). MEMR has also been considering the establishment of natural gas distribution grids in Amman, Zarka, and Aqaba, which would supply household, commercial, and light industries.

Gas Pipeline Extending to Syria and Lebanon

¶6. (SBU) The Arab Gas Pipeline (AGP) has been the conduit of Egyptian gas to Jordan (ref C). Al-Fajr for Natural Gas Transmission and Supply Co, an Egyptian-funded company domiciled in Jordan, owns and operates the AGP portion within Jordan on a "build-own-operate-transfer" (BOOT) basis. Al-Fajr Chairman Dr. Mahmoud Badran indicated to Econoff that the design capacity of the AGP is about 8-10 BCM per year, 50% of which has been allocated to Jordan. He confirmed that the AGP now extends through the Syria-Jordan border, and pipeline construction within Syria is near completion. According to Badran, the supply of Egyptian gas to Syria is pending resolution of some administrative issues between the two countries.

¶7. (SBU) Badran commented that plans are imminent to connect Lebanon to the AGP, which is about 38 kilometers from the Syrian-Lebanese border, and he believed Lebanon would be near ready to receive Egyptian gas, with pipeline construction already underway within Lebanon. He doubted, however, that plans to connect Turkey would come to fruition in the near future, given that the AGP is still 63 kilometers from the Syrian-Turkish border, and Turkey has not yet constructed the necessary infrastructure internally.

¶8. (SBU) Badran also mentioned that a future connection with Iraq is envisioned, but not foreseen in the near term. While it is technically feasible for Iraq to link its western natural fields to the AGP, he noted that Iraq had not yet signed the AGP Memorandum of Understanding, despite previous opportunities to do so. He added that the gas situation in Iraq is also still unclear, particularly the specifications of Iraqi natural gas. Such issues seem to present some obstacles to any Iraqi pledges of providing natural gas to the EU through the AGP in the near future (ref A).

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